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OFFICE OF INSPECTOR GENERAL

**AUDIT OF
USAID/AFGHANISTAN'S
ALTERNATIVE LIVELIHOODS
PROGRAM—EASTERN REGION**

AUDIT REPORT NO. 5-306-07-002-P
February 13, 2007

MANILA, PHILIPPINES



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Office of Inspector General

February 13, 2007

MEMORANDUM

TO: USAID/Afghanistan Director, Leon S. Waskin

FROM: RIG/Manila, Catherine M. Trujillo /s/

SUBJECT: Audit of USAID/Afghanistan's Alternative Livelihoods Program–Eastern Region
(Audit Report No. 5-306-07-002-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we considered your comments to the draft report and included the comments (without attachments) in Appendix II.

This report contains four recommendations to help improve implementation of USAID/Afghanistan's Alternative Livelihoods Program–Eastern Region. Based on the information provided by the Mission in response to the draft report, we consider that final actions have been taken on all four recommendations upon issuance of this report.

I want to thank you and your staff for the cooperation and courtesy extended to us during the audit.

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SUMMARY OF RESULTS

USAID/Afghanistan's Alternative Livelihoods Program–Eastern Region (ALP/E) achieved significant results in fiscal year 2006, but we did not measure the actual results achieved against the planned results for the fiscal year because performance targets were set too late in the year to be useful measures of what ALP/E planned to achieve. (See page 4.)

In fiscal year 2006, ALP/E achieved significant results for 13 of 15 performance indicators used by USAID/Afghanistan to measure whether the program was achieving planned results. Achievements that supported ALP/E's objective of accelerating licit economic growth and business activity included 27,534 hectares devoted to licit agricultural production and 98,154 farmers trained in agricultural practices. Achievements that supported ALP/E's objective of providing an immediate alternative source of income to those who depend on the opium economy included 19,698 Afghans paid \$4,209,670 through cash-for-work projects. Two performance indicators could not be evaluated because sufficient information on actual accomplishments was not available or the related program activities were not fully implemented. (See pages 4 and 5.)

Despite its achievements, ALP/E could have been more successful had the program started when originally planned and had contracting snags been quickly resolved. For example, ALP/E missed the opportunity to induce more Afghans not to plant opium poppy in the winter of 2005 because the implementing contractor did not roll out the program as quickly as had been expected. (See page 6.) Further, ALP/E did not deliver an anticipated \$1.6 million in microfinance loans intended to provide about 8,000 Afghans with alternatives to growing opium poppy because USAID/Afghanistan used a contracting mechanism that impaired its contractor's ability to fully implement credit and finance activities. (See page 8.)

In addition to the issues just discussed, we noted that USAID/Afghanistan could improve its monitoring of ALP/E by timely setting or updating performance targets and documenting sites visits. (See page 10.)

This report made four recommendations to address the above issues and to help improve implementation of ALP/E. (See pages 10, 11 and 12.) USAID/Afghanistan agreed with all four recommendations and took action on all of them. Based on our evaluation of USAID/Afghanistan's written comments and supporting documentation, we consider that final actions have been taken on all four recommendations upon issuance of this report. However, USAID/Afghanistan disagreed with aspects of one finding and requested some revisions to the report. We carefully considered USAID/Afghanistan's comments and made revisions where appropriate in finalizing the report. (See page 13.)

USAID/Afghanistan's comments (without attachments) are included as Appendix II to this report. (See page 16.)

BACKGROUND

The production and trafficking of illicit narcotics poses a serious challenge to the Government of Afghanistan. According to the United Nations, Afghanistan produces about 89 percent of the world's illicit opium, generating revenues equivalent to about one-half of Afghanistan's \$5.2 billion gross domestic product in 2005. According to the Department of State, narcotics revenues breed corruption at virtually all levels of the Afghan government while providing resources to the Taliban, drug lords, and other terrorist groups.

Solving the narcotics problem is widely seen as critical to achieving security in Afghanistan. To this end, the Afghan government set a goal to eliminate opium production under a 10-year National Drug Control Strategy that aims at a 70 percent reduction of opium poppy cultivation by August 2008, and a complete elimination by 2013 in areas where alternative livelihoods have been made sufficiently available.

To help the Afghan government eliminate opium production, the U.S. government established a five-pillar counternarcotics strategy, as shown in Figure 1 below. This strategy includes incentives to stop growing opium poppy through (1) alternative livelihoods projects, combined with strong disincentives in the form of (2) forced eradication, (3) interdiction, and (4) law enforcement, while (5) spreading the Afghan government's antinarcotics message through public information activities. The U.S. Embassy/Afghanistan's Counternarcotics Task Force oversees the strategy and coordinates with the various cognizant U.S. and Afghan government agencies.

Figure 1: U.S. Government Five-Pillar Counternarcotics Strategy

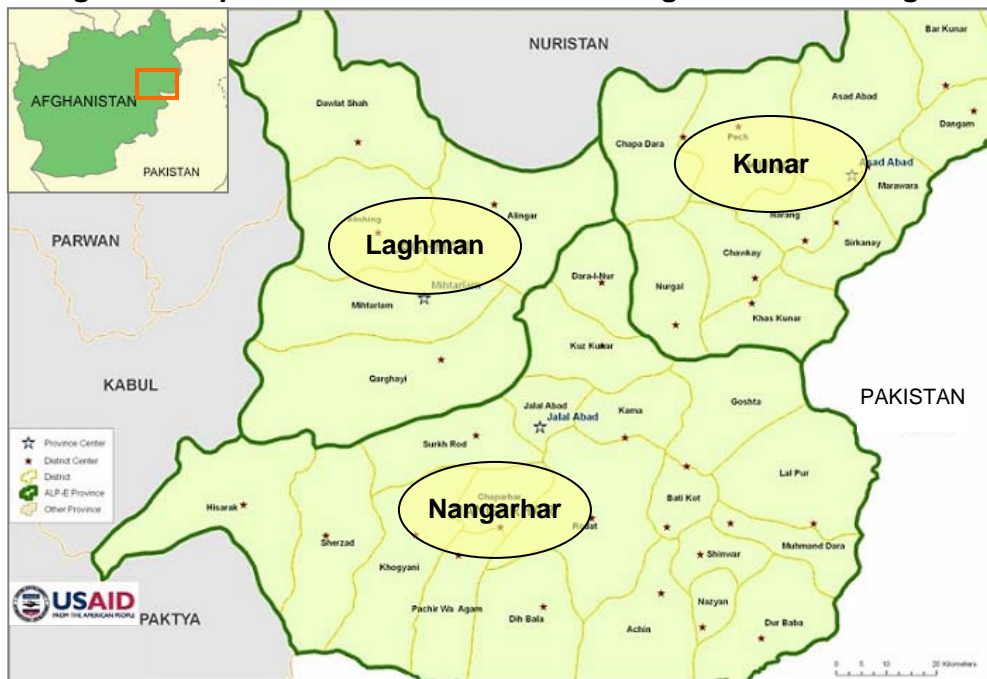


In December 2004, as part of the U.S. government's five-pillar counternarcotics strategy, USAID/Afghanistan launched its Alternative Livelihoods Program (ALP) to provide economic alternatives to the production of opium poppy in Afghanistan. The program mainly targets core poppy-producing areas in northern, eastern, and southern Afghanistan, but includes activities in other provinces where poppy cultivation is expanding or where there has been a concerted effort to eliminate narcotics production.

In February 2005, USAID/Afghanistan awarded a four-year \$108 million contract to Development Alternatives, Inc. (DAI) to implement ALP/East (ALP/E) in the eastern provinces of Kunar, Laghman, and Nangarhar, as shown on the map in Figure 2. The eastern provinces accounted for almost one-third of all of Afghanistan's poppy production in 2004, and in Nangarhar, the number of households involved in the opium economy was double that of the national average (more than 70 percent of families).

ALP/E's goal is to accelerate broad-based, sustainable regional economic development in ways that provide new opportunities for Afghans to seek livelihoods in the licit economy in the eastern region of Afghanistan. The program has two objectives: (1) to help accelerate licit economic growth and business activity, and (2) to help provide an immediate alternative source of income to poor households whose livelihoods depend, directly or indirectly, on the opium economy.

Figure 2: Map of Alternative Livelihoods Program–Eastern Region



This audit covers ALP/E activities implemented by DAI from February 2005 through September 2006. As of September 30, 2006, USAID had obligated \$54.3 million and disbursed \$24 million for those activities. USAID/Afghanistan's Economic Growth Office is responsible for monitoring ALP/E.

AUDIT OBJECTIVE

The Regional Inspector General/Manila conducted this audit as part of its fiscal year 2006 annual audit plan to answer the following question:

- Did USAID/Afghanistan's Alternative Livelihoods Program-Eastern Region achieve planned results for fiscal year 2006?

Appendix I contains a discussion of the audit's scope and methodology.

AUDIT FINDINGS

USAID/Afghanistan's Alternative Livelihoods Program–Eastern Region (ALP/E) achieved significant results in fiscal year 2006, but we did not measure the actual results achieved against the planned results for the fiscal year because performance targets were set too late in the year to be useful measures of what ALP/E planned to achieve. Further, ALP/E could have achieved more than it did, but Development Alternatives, Inc. (DAI) took longer than planned to roll out the program and USAID/Afghanistan used a contracting mechanism that impaired DAI's ability to implement certain activities.

USAID/Afghanistan established 15 performance indicators to measure whether ALP/E was achieving planned results. Table 1 shows the reported and actual results achieved for 13 indicators for the fiscal year ending September 30, 2006. Two indicators could not be evaluated because sufficient information on actual accomplishments was not available or the related program activities were not fully implemented.

**Table 1: Comparison of Reported and Actual Results
(Fiscal Year Ending September 30, 2006)**

No.	Performance Indicator	Results Reported by DAI	Actual Results per OIG
1	Percent of cluster (economic area) that meets standards	-	Could Not Be Evaluated
2	Percent change in production of selected high value (three major) agricultural crops	27	27
3	No. of hectares devoted to licit agricultural production	27,000	27,534
4	Full-time jobs created through the expansion of licit activities	7,741	7,741
5	Kilometers of irrigation and drainage canals and karazes rehabilitated	151	151
6	Kilometers of rural roads repaired in poppy regions	185	192
7	Hectares of improved irrigation as a result of ALP infrastructure works	63,092	63,272
8	Amount in U.S. dollars paid in cash-for-work (CFW) projects	\$4,209,670	\$4,209,670
9	No. of Afghans paid through CFW salaries	19,698	19,698
10	No. of labor days for CFW	1,069,862	1,069,862
11	No. of Afghans trained in business skills	2,112	2,127
12	No. of farmers trained in agricultural practices in targeted poppy provinces under ALP	95,106	98,154
13	No. of farmers receiving seed and fertilizer	92,956	92,956
14	Seasonal (non-CFW) employment created through the expansion of licit activities	1,430	1,430
15	No. of Afghans receiving agricultural credit through ALP	-	Could Not Be Evaluated

Achievements that supported ALP/E's objective of accelerating licit economic growth and business activity included 27,534 hectares devoted to licit agricultural production and 98,154 farmers trained in agricultural practices. Achievements that supported ALP/E's objective of providing an immediate alternative source of income to those who depend on the opium economy included 19,698 Afghans paid \$4,209,670 through cash-for-work projects.



OIG photograph of Afghan men working on a cash-for-work project to build a flood protection wall for the village of Binigah. (October 2006)

We could not evaluate two performance indicators. Performance indicator no. 1 could not be evaluated because its performance data were not in a condition suitable for examination. At the time of the audit, DAI was still gathering and preparing progress data because the indicator was new and it was the first time that DAI was going to report on the indicator. Performance indicator no. 15 also could not be evaluated because DAI had not set a performance target or collected progress data for the indicator. This occurred because a contract restriction prevented DAI from fully implementing ALP/E credit and financing activities (see discussion on page 8).

Officials from the U.S. Embassy/Afghanistan, USAID/Afghanistan and the Government of Afghanistan considered ALP—particularly its work in the eastern region—to be the most successful pillar of the U.S. government's five-pillar counternarcotics strategy for Afghanistan.

Nonetheless, ALP/E could have had more of an impact had the program started when originally planned and had contracting snags been quickly resolved. These issues are discussed in the following narrative.



OIG photograph of an Afghan woman working on a cash-for-work project to rehabilitate a fruit and vegetable wholesale market in Jalalabad. (October 2006)

Program Rollout Slower Than Expected

Summary: According to its ALP/E statement of work, DAI was to launch immediate-impact activities to coincide with other U.S. government efforts to reduce the amount of opium poppy planted in October-December of 2005. For the most part, however, DAI did not substantially implement its activities until February 2006. This delay occurred because DAI and USAID/Afghanistan focused on long-term program planning rather than on rolling out ALP/E activities. As a result, ALP/E missed the opportunity to induce more Afghans not to plant opium poppy in the winter of 2005 by providing them with an immediate alternative source of income.

The second of ALP/E's two objectives was to help provide an immediate alternative source of income to poor households whose livelihoods depended, directly or indirectly, on the opium economy. USAID/Afghanistan planned to accomplish the objective through immediate-impact activities—primarily cash-for-work projects.

DAI's statement of work imposed a strong sense of urgency to launch ALP/E quickly to mitigate the social impact that other elements of the U.S. government's five-pillar counternarcotics strategy would have as they unfolded in major poppy-growing areas. Specifically, arrest, interdiction and eradication were to start in 2005 and these measures would prevent thousands of Afghans from growing opium poppy—their only source of income. Consequently, USAID/Afghanistan intended to start immediate-

impact activities to provide Afghans with an alternative source of income before opium poppy was planted in October-December 2005.¹

DAI, however, did not substantially implement immediate-impact activities until February 2006—a year after the contract started. For example, DAI's records showed that cash-for-work projects—the principal and most immediate means of providing Afghans with an alternative source of income—were limited before February 2006. For example, from October 2005 through January 2006, the number of labor days generated in cash-for-work projects averaged only 35,000 per month. In contrast, the number of labor days generated jumped to 63,000 in February and averaged 99,000 from February through September 2006.

USAID/Afghanistan and DAI focused more on planning ALP/E than on implementing it. DAI's Chief of Party explained that DAI spent almost a year responding to USAID/Afghanistan requirements to conduct studies, write reports, and revise planning and strategy documents. For example, in March 2005 DAI submitted to the Mission its first work plan, but the Mission did not approve it until December 2005. USAID/Afghanistan officials explained that the Cognizant Technical Officer (CTO) did not want to repeat mistakes made by the Mission in earlier attempts to quickly roll out programs. Consequently, the CTO was very careful and paid close attention to details to ensure that each program activity was properly linked to objectives before approving DAI's planning documents. Mission officials conceded that, in hindsight, there should have been more of a balance between planning and implementation.

Overall, opium poppy cultivation increased in 2006 in the provinces where ALP/E was operating.² As illustrated in Figure 3 on the next page, the United Nations reported that opium poppy cultivation in 2006 increased by 346 percent in Nangarhar province and 159 percent in Laghman province, but decreased by 12 percent in Kunar province when compared with 2005.³ This increase followed a dramatic decrease in cultivation for all three provinces in 2005 when compared with 2004. Although the 2006 increase, particularly in Nangarhar province, was significant, the total hectares of opium poppy cultivated was about one-fifth of that cultivated in 2004.

According to the U.S. Embassy/Afghanistan's Counternarcotics Task Force Director, the substantial reduction of poppy cultivation in Nangarhar province in 2005 occurred because the Government of Afghanistan (GOA) provided wheat seeds and made promises to provide other incentives to the provincial government and farmers for not growing poppy. The Director explained that the reduction was difficult to repeat in 2006 because ALP was not fully in place when the 2006 opium poppy crop was planted in the winter of 2005. He added that the task force was expecting a large increase in poppy cultivation in 2006 and was pleased when the increase was much smaller than expected. Furthermore, the Director stated that because the provincial government was promised a lot by the GOA and not much U.S. assistance was delivered in 2005, it was understandable that some farmers returned to growing opium poppy. On the other hand, the Director stated that USAID had been creative in implementing and monitoring

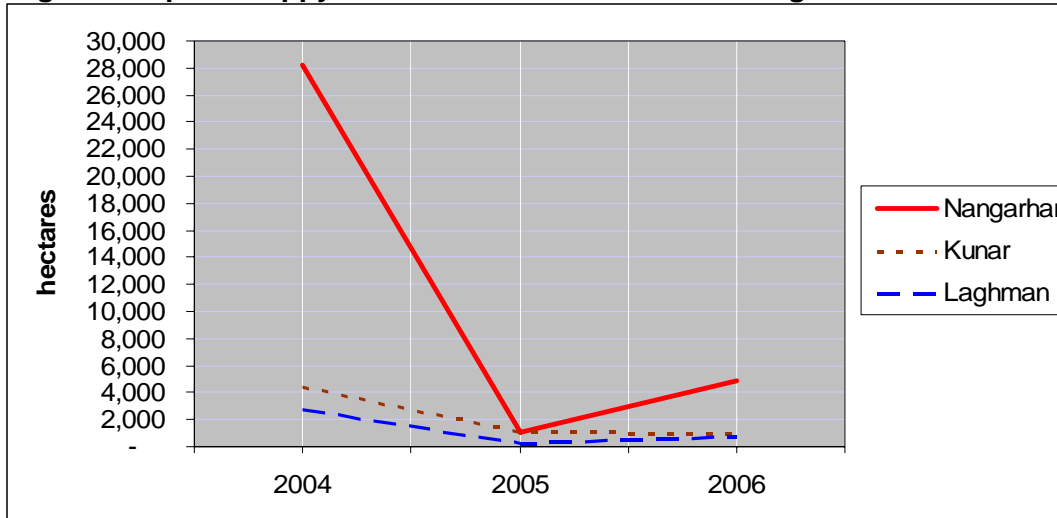
¹ In Afghanistan, opium poppy is most commonly planted in October-December and harvested in April-May of the following year.

² The 2006 opium poppy crop was the first crop cultivated after ALP/E began in February 2005.

³ United Nations Office on Drugs and Crime, *Afghanistan Opium Survey 2006, Executive Summary, September 2006*.

ALP in the face of deteriorating security and it cannot be blamed for the increase in poppy cultivation.

Figure 3: Opium Poppy Cultivation Trends in Eastern Afghanistan 2004-2006



Because of delays in rolling out immediate-impact activities, ALP/E did not provide as many Afghans an alternative to growing poppy as originally intended, which might have contributed to the increased poppy cultivation in 2006, but there were other causes for the increase. The lack of governance, rule of law, a criminal justice system, and an eradication program, coupled with corruption and deteriorating security were some of the principal causes mentioned by officials from the U.S. Embassy/Afghanistan, USAID/Afghanistan and the GOA, as well as in the United Nations report. These causes were being addressed by other elements of the U.S. government's five-pillar counternarcotics strategy, which were not under USAID/Afghanistan's control.

We are not making a recommendation regarding the program's slow rollout because ALP/E activities are now in place.

Key Program Activities Not Fully Implemented

Summary: According to its ALP/E statement of work, DAI was required to develop activities to create or strengthen credit and financing institutions to serve all economic sectors. However, USAID/Afghanistan used a contract mechanism that impaired DAI from fully implementing such activities. Consequently, ALP/E did not deliver an anticipated \$1.6 million in microfinance loans to small and medium businesses, intended to provide about 8,000 Afghans with alternatives to growing opium poppy. This especially impacted on Afghan women who wanted to pursue such alternative livelihoods as selling handicrafts, embroidery, and textile products.

The first of ALP/E's two objectives was to help accelerate licit economic growth and business activity in selected provinces where poppy cultivation was thriving. Specifically, the intent was to accelerate regional economic growth, encourage investment, and create employment in the provinces of Kunar, Laghman, and

Nangarhar, identified as the principal poppy growing areas in eastern Afghanistan. To address this objective, ALP/E's statement of work required DAI to develop activities to create or strengthen credit and financing institutions to serve all economic sectors, among other activities.

Having available commercial credit and financial services was important for building a sustainable rural economy in eastern Afghanistan. ALP/E's studies revealed that access to credit was paramount to any increase in productivity and business development, agricultural or otherwise, but local banks were unwilling to provide such credit in rural areas.

To meet this need, ALP/E designed a strategy to develop a useful financial sector through backing sustainable microfinance institutions, diagnosing and resolving financial constraints to growth, and creating small and medium enterprise (SME) lending and leasing programs in commercial institutions. A key part of this strategy was providing loan capital through grants to microfinance institutions. In turn, these institutions would use the loan capital for such things as financing small-equipment leases and providing credit to farmers or women to start small businesses to sell handicrafts, embroidery, and textile products. ALP/E budgeted a total of \$4.75 million for credit and financing activities, of which about \$1.6 million was intended for grants to fund microfinance loans for up to 8,000 clients over three years.

However, DAI did not implement key credit and finance activities. DAI implemented some activities, such as business plan development and loan portfolio preparation assistance to businesses and entrepreneurs, but it did not provide loan capital through grants (i.e., microfinance loans)—an important component of ALP/E's original strategy.

This occurred because USAID/Afghanistan used a contract mechanism that prevented DAI from providing loan capital through grants. Because it needed to start ALP/E quickly, the Mission bought into an existing General Services Administration's Mission Oriented Business Integrated Services (MOBIS) contract with DAI. According to its former Regional Contracting Officer (RCO), the Mission understood what could and could not be done under the MOBIS contract and trade-offs were made regarding credit and financing activities due to the need to act quickly. The former RCO explained that the Mission knew that grants to provide loan capital could not be issued under the MOBIS contract. Consequently, the Mission's aim was to award a separate cooperative agreement to provide such grants.

However, USAID/Afghanistan did not issue a separate cooperative agreement until September 2006—about 19 months after it used the MOBIS contract to procure DAI's services. Mission officials managing ALP/E stated that the delay in awarding a cooperative agreement occurred because for several months the Mission and DAI continued exploring ways to provide loan capital through grants via the MOBIS contract. In September 2005, after conceding that the MOBIS contract could not be used for such activities, the Mission began designing a new credit program for all of the ALP. In September 2006, the Mission launched the Agriculture, Rural Investment and Enterprise Strengthening (ARIES) program under a separate cooperative agreement, which included about \$77 million to provide microfinance loans over three years to approximately 56,790 clients in the eastern region of Afghanistan.

The use of the MOBIS contract had a number of repercussions. For example, because it could not deliver loan capital through grants, DAI had to shift its strategy from funding microfinance loans to only facilitating them, such as building capacity of loan providers and SMEs, as well as identifying a wider range of existing credit sources for project participants. As a result, none of the \$1.6 million was used to assist any of the anticipated 8,000 clients. This especially impacted on Afghan women who wanted to pursue such alternative livelihoods as selling handicrafts, embroidery, and textile products. Furthermore, the Mission delayed implementing microfinance activities on a wider scale by not immediately seeking to issue a separate cooperative agreement.

Because USAID/Afghanistan implemented the ARIES program and reallocated the \$1.6 million to other ALP/E activities, we are not making a recommendation with respect to the use of the MOBIS contract mechanism. However, because the Mission still requires DAI to include a performance indicator on the number of Afghans receiving agricultural credit through ALP/E in its performance monitoring plan, which it cannot report on, we are making the following recommendation.

Recommendation No. 1: We recommend that USAID/Afghanistan require Development Alternatives, Inc. to replace the performance indicator on the number of Afghans receiving agricultural credit through Alternative Livelihoods Program–Eastern Region with a performance indicator that reflects the program’s shift from funding microfinance loans to facilitating the issuance of such loans.

Mission Monitoring Needs Strengthening

Summary: USAID policy requires that missions establish performance management systems to measure progress towards their intended strategic objectives. However, USAID/Afghanistan’s monitoring of ALP/E should be strengthened in two areas. Specifically, performance targets were not timely set or updated and most Mission monitoring site visits were not documented. This occurred because the Mission did not have procedures in place to address these areas. Other contributing causes were competing work requirements, higher priorities, and staff shortages. As a result, the Mission limited its ability to monitor and track ALP/E’s progress towards achieving intended results and to independently assess DAI’s performance.

USAID’s Automated Directives System (ADS) 203.3.2 states that missions are responsible for establishing systems to measure progress towards their intended strategic objectives. Additionally, ADS 200.6 defines performance management as “...the systematic process of monitoring the results of activities; collecting and analyzing performance information to track progress toward planned results; using performance information to influence program decision-making and resource allocation; and communicating results achieved, or not attained, to advance organizational learning and tell the Agency’s story.”

Performance Targets Not Timely Set or Updated – USAID/Afghanistan set performance indicators and targets for ALP/E, but the targets were not timely set and it was too late for them to be useful for measuring intended performance in fiscal year 2006. Specifically, the Mission did not approve 10 of the 15 ALP/E indicators until

August 2006, the penultimate month of the fiscal year. At the same time, the Mission approved fiscal year 2006 targets for 9 of the 10 indicators. Further, the Mission did not approve five indicators and their fiscal year 2006 targets until October 2006, after fiscal year 2006 ended and about 20 months after the start of the ALP/E contract. Additionally, the targets set for performance indicator no. 6 (kilometers of rural roads repaired in poppy region) did not reflect significant changes made to ALP/E. In July 2006, the Mission authorized an additional \$11 million to repair more rural roads, but the additional funds were not factored in when targets were set for this indicator.

ADS 203.3.4.2 states that performance indicators should be available when they are needed to make decisions and after a delay of a year or more, they may be difficult to use. Also, ADS 203.3.8.4 states that for each of the performance indicators selected, the Mission must establish performance targets against which the Mission will assess performance for the given year at least nine months before the end of the fiscal year (by December 31). With respect to updating performance indicators, ADS 203.3.4.6 states that a mission should update its performance monitoring plans regularly with new performance information as programs develop and evolve, which includes updating indicators for significant program changes. Furthermore, ADS 203.3.4.5 states that targets that are set too low are not useful for management and reporting purposes.

The late setting of performance targets occurred for a number of reasons. First, USAID/Afghanistan's CTO determined that the work plan and the performance monitoring plan (PMP) submitted by DAI in March 2005 were inadequate. It was not until September 2005 that the Mission finally approved the PMP, which included performance indicators and targets. Second, when it finally approved DAI's work plan in December 2005, two months after the Mission required DAI to submit a revised PMP, which was done on March 31, 2006. Lastly, when the Mission finalized its own PMP for 2006-2008 in May 2006, it required DAI to once again revise its PMP so that it would align with the Mission's PMP. This last revision resulted in the 15 performance indicators—which were significantly different from the previous indicators—that together with their targets were not approved until August and October 2006.

Because performance targets were not timely set, USAID/Afghanistan was limited in its ability to monitor and track ALP/E's progress towards achieving intended results in fiscal year 2006 and to monitor and evaluate DAI's performance. Additionally, setting targets so late in the fiscal year is not in consonance with USAID's core value of managing for results and the principles of performance management outlined in the ADS. Furthermore, in our opinion, the performance targets established for fiscal year 2006 were not useful measures of what ALP/E planned to achieve in fiscal year 2006 because they were set late in the fiscal year.

We are not making a specific recommendation on the late setting of performance targets for fiscal 2006 because that year has ended and because targets have been set for fiscal years 2007-2008. However, for future reporting, we are making the following recommendations to ensure that ALP/E's targets are timely updated when there are significant program changes so that management can find them useful in measuring program performance.

Recommendation No. 2: We recommend that USAID/Afghanistan update its performance target for kilometers of rural roads repaired in poppy regions to a realistic level that reflects the additional \$11 million of funding for this activity.

Recommendation No. 3: We recommend that USAID/Afghanistan develop a plan of action to ensure that performance targets are updated for future significant program changes.

Mission Site Visits Not Documented – USAID/Afghanistan staff conducted 56 monitoring visits to ALP/E sites from August 2005 to October 2006. However, only six site visit reports (11 percent) were prepared and maintained in the CTO's work files.

ADS 202.3.6 and the CTO designation letter establish certain responsibilities that CTOs must comply with when overseeing USAID contracts. These responsibilities include monitoring the quality and timeliness of outputs produced by contractors, reviewing contractor-submitted vouchers for accuracy, and maintaining CTO work files, including documenting site visits. CTOs should document site visits to support their performance monitoring responsibilities, such as monitoring the quality and timeliness of outputs. CTOs should also document site visits to support their financial management responsibilities, such as providing administrative approval on contractor-submitted vouchers. When approving such vouchers, the CTO is required to attest whether project site visits were made or not.

The CTO for ALP/E did not document all site visits because of competing requirements, higher priorities and a lack of staff resources. For example, with respect to lack of staff resources, it took 10 months to replace a foreign service national who had been assisting the CTO. Further, USAID/Afghanistan did not have any Mission-specific procedures in place requiring that site visits of program activities be documented and maintained in CTO files.

Site visit reports are useful tools. They provide a permanent record of comparable performance data, which allows the Mission to make informed decisions on issues affecting contractor performance or program progress. Without such reports, the Mission could be hampered in its ability to independently assess contractor performance and to identify ways to improve ALP/E's performance. Since USAID/Afghanistan is a high turnover post with one-year tours, undocumented site visits could also impede a successor CTO's ability to manage the ALP/E contract.

In September 2006, the Mission hired a replacement foreign service national to assist the CTO. This should help the CTO to meet his workload, including documenting site visits. Nonetheless, we are making the following recommendation.

Recommendation No. 4: We recommend that USAID/Afghanistan develop Mission-specific procedures requiring that site visits of program activities be documented and maintained in Cognizant Technical Officer files.

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, USAID/Afghanistan agreed with all four recommendations and took immediate actions to implement them. Based on our review of the Mission's comments, detailed actions, and supporting documents, we determined that final actions have been taken on all four recommendations.

USAID/Afghanistan disagreed with the finding on page 6, particularly the statement "ALP/E missed the opportunity to induce more Afghans not to plant opium poppy in the winter of 2005 by providing them with an immediate alternative source of income." According to the Mission, significant cash-for-work projects occurred in Nangarhar province prior to February 2006 under its Afghanistan Immediate Needs Program (AINP). As such, the Mission believed that ALP/E had to be viewed in the context of the alternative livelihoods activities implemented under the AINP. Specifically, the Mission stated that due to the level of AINP cash-for-work projects in Nangarhar province, initial ALP/E cash-for-work projects focused primarily on Laghman Province, as it was not deemed necessary to have two major cash-for-work projects operating simultaneously in the same province. The Mission added that ALP/E dramatically increased cash-for-work projects in Nangarhar and other provinces after AINP closed in January 2006.

We considered USAID/Afghanistan's comments, but we did not change the report. Generally, we would agree that ALP/E should be considered in the context of all alternative livelihoods programs being implemented at the same time in the same area. During our audit, however, neither officials from Development Alternatives, Inc. (DAI) nor from the Mission cited a strategy that linked implementation of ALP/E cash-for-work projects to similar activities under the AINP. Additionally, DAI and Mission officials attributed ALP/E's slow rollout not to such a strategy but to lengthy program planning (see page 7). Furthermore, neither DAI's contract nor its work plans cited such a strategy as an integral element of ALP/E's rollout. Finally, since we did not audit the AINP, we could not confirm that it had significant cash-for-work projects ongoing in Nangarhar province prior to February 2006. Given the information provided to us, we believed it reasonable to conclude that ALP/E could have reached more Afghans had it rolled out more vigorously, as planned.

Based on USAID/Afghanistan's comments and supporting evidence, we changed the report to reflect that the Mission approved DAI's work plan in December 2005. Although a formal directive approving the work plan was not sent to DAI until February 2006 (the date cited in our draft report), the acting Cognizant Technical Officer did approve the work plan in December 2005 through an e-mail, which allowed DAI to proceed with implementation before the formal directive was issued.

USAID/Afghanistan's written comments on the draft report are included in their entirety (without attachments) as Appendix II to this report.

SCOPE AND METHODOLOGY

Scope

The Regional Inspector General/Manila conducted this audit in accordance with generally accepted government auditing standards to determine whether USAID/Afghanistan's Alternative Livelihoods Program—Eastern Region (ALP/E) achieved planned results for fiscal year 2006. In February 2005, USAID/Afghanistan awarded a four-year \$108 million contract to Development Alternatives, Inc. (DAI) to implement ALP/E in the eastern provinces of Kunar, Laghman, and Nangarhar. As of September 30, 2006, USAID records showed obligations of \$54.3 million and disbursements of \$24 million for ALP/E activities.

The audit was performed in Afghanistan during the period October 7-25, 2006, and it covered ALP/E activities implemented by DAI from February 2005 through September 2006. Fieldwork was conducted at USAID/Afghanistan, the U.S. Embassy/Afghanistan, the Government of Afghanistan's Ministry of Counternarcotics and Ministry of Interior, DAI's office in Jalalabad, the Office of the Deputy Governor of Nangarhar province, and selected ALP/E project sites in Nangarhar province.

We reviewed 15 performance indicators that USAID/Afghanistan established to measure whether ALP/E was achieving planned results. Ten of the indicators were activity-level performance indicators that DAI was required to report on in its biweekly and quarterly progress reports to the Mission. The other five indicators were results-level performance indicators that DAI was required to report on in its quarterly progress reports. We analyzed the progress of all 15 performance indicators.

As part of the audit, we assessed the significant internal controls used by USAID/Afghanistan to monitor ALP/E activities. The assessment included controls related to whether the Mission (1) conducted and documented site visits to evaluate progress and monitor quality, (2) required and approved an implementation plan, (3) reviewed progress reports submitted by DAI, and (4) compared DAI's reported progress to planned progress and the Mission's own evaluations of progress. We also reviewed the Mission's Federal Managers' Financial Integrity Act report for fiscal year 2006, United Nations' reports, and U.S. government reports for any issues related to the audit objective. Finally, we reviewed relevant prior audit reports, including those issued by the U.S. Government Accountability Office.

We also assessed the effectiveness of USAID/Afghanistan's internal controls over certain high-risk ALP/E activities, such as cash-for-work payments and the distribution of crop fertilizer. This assessment included the measures the Mission used to ensure that provincial governments, farmers, and other recipients of ALP/E benefits were not still participating in opium poppy production.

Methodology

To answer the audit objective, we interviewed officials from USAID/Afghanistan, DAI, the U.S. Embassy/Afghanistan, the Government of Afghanistan, and the provincial

government of Nangarhar province. We also reviewed and analyzed relevant documents at both the Mission and DAI. This documentation included performance monitoring plans, the contract between USAID/Afghanistan and DAI, site visit and other monitoring reports, progress reports, and financial records.

DAI used a simple, basic Access database to track progress on the 15 established performance indicators. We compared the performance data reported by DAI to USAID/Afghanistan in progress reports to the performance data in the database. Additionally, we performed a number of steps to test the reasonableness, reliability, and accuracy of the database. For example, we gained an understanding of DAI's data collection system, from the point of origination in the field to the point of consolidation into the database. This included observing the collection and recording of data during site visits. We also performed detailed queries of the various substrata within the database, assessed the formulas applied to data in the database to arrive at summary performance results and performed recalculations of data. We performed these steps because we did not trace performance data in the database to source documents, in part, because of the security situation in Jalalabad where DAI's records were kept.

Similarly, security restrictions prevented us from making site visits to Laghman and Kunar provinces. We did perform site visits in Nangarhar province—work in this province accounted for 64 percent of ALP/E's funding.

In answering the audit objective, we considered exceptions totaling 5 percent or more of the cases tested to represent significant issues that merited reporting.

MANAGEMENT COMMENTS



MEMORANDUM

TO : RIG/Manila, Catherine M. Trujillo

FROM : USAID/Afghanistan Director, Leon S. Waskin /S/

DATE : February 4, 2007

SUBJECT : Audit of USAID/Afghanistan's Alternative Livelihoods Program-Eastern Region. (Audit Report No. 5-306-07-00X-P)

REFERENCE: MTrujillo / LWaskin memo dated 01/08/07

Thank you for providing the Mission the opportunity to review the subject draft audit report. We are providing below our comments, other relevant information, and management decisions on the recommendations in the audit report.

MISSION RESPONSES TO AUDIT RECOMMENDATIONS

Recommendation No. 1 We recommend that USAID/Afghanistan require Development Alternative, Inc. to replace the performance indicator on the number of Afghans receiving agricultural credit through Alternative Livelihoods Program /Eastern Region with a performance indicator that reflects that program's shift from funding microfinance loans to facilitating the issuance of such loans.

The Mission agrees with the recommendation that the Development Alternative, Inc. (DAI) replace the performance indicator on the number of Afghans receiving agricultural credit through ALP/E with a performance indicator that reflects the program's shift from funding microfinance loans to facilitating the issuance of such loans.

Action: The Mission has issued a Technical Directive on January 30, 2007 to DAI directing that the indicator, “Afghans receiving credit through ALP” be removed from the PMP, and replaced by “Number of loan agreements facilitated.” (Attachment 1)

The Mission requests that the recommendation be closed upon issuance of the final audit report.

Recommendation No. 2: We recommend that USAID/Afghanistan update its performance target for kilometers of rural roads repaired in poppy regions to a realistic level that reflects the additional \$11 million of funding for this activity.

The Mission agrees with the recommendation that DAI update its performance target for kilometers of rural road repaired in poppy regions to a realistic level that reflects the additional \$11 million of funding for this activity.

Action: DAI has corrected its FY 06 target for kilometers of rural roads repaired in poppy regions, which has been raised from 105 to 150. An updated performance tracking table from the October-December 2006 quarterly report is included in Attachment 2. Please note that the LOP target of 400 given to the auditors had already accounted for the increased \$11 million in funds for cobblestone roads.

The Mission requests that the recommendation be closed upon issuance of the final audit report.

Recommendation 3: We recommend that USAID/Afghanistan develop a plan of action to ensure that performance targets are updated for future significant program changes.

The Mission agrees with the recommendation that USAID/Afghanistan develop a plan of action to ensure that performance targets are updated for future significant program changes.

Action: The Mission has issued a Technical Directive on January 30, 2006 (Attachment 1) to DAI indicating that all required performance targets will be reviewed with the ALP/E CTO on a monthly basis, with revisions made as appropriate.

The Mission requests that the recommendation be closed upon issuance of the final audit report.

Recommendation 4: We recommend that USAID/Afghanistan develop Mission-specific procedures requiring that site visits of program activities be documented and maintained in Cognizant Technical Officer files.

The Mission agrees with the recommendation that USAID/Afghanistan develop Mission-specific procedures requiring that site visits of program activities be documented and maintained in Cognizant Technical Officer files.

Action: On December 17, 2006, the Mission issued Mission Notice No. 2006-106, Roles and Responsibilities of Cognizant Technical Officers (CTOs). This notice was issued: 1) to require all CTOs to document and keep files of site visit reports; 2) to remind COs/AOs, CTOs and the supervisors of CTOs, about the inter-related nature of CTO performance and the monitoring thereof in the context of how designated CTOs perform their CTO duties and responsibilities as stated in their CTO designation letter; and 3) to encourage joint site visits by CTOs together with representatives from other offices who are involved in monitoring the performance and financial status of USAID/Afghanistan projects. (Attachment 3)

[Note: The Mission has documented 17 USAID site monitoring visits of ALP/E activities since September 2006. Attachment 3a is a sample of a site visit report.]

The Mission requests that the recommendation be closed upon issuance of the final audit report.

Technical Comments on the Report

Although the draft report contains useful recommendations for strengthening the Mission's ability to monitor and track progress towards achieving intended results and assessing Contractor's performance, we disagree with the findings on page 6, particularly that "ALP/E missed the opportunity to induce more Afghans not to plant opium poppy in the winter of 2005 by providing them with an immediate alternative source of income."

The Mission provides the following to substantiate that (a) there were significant on-going cash-for-work activities underway in Nangarhar province prior to February 2006, implemented under USAID's Afghanistan Immediate Needs Program (AINP), and (b) a work plan was approved before February 2006.

a) Significant on-going cash-for-work activities were underway in Nangarhar province prior to February 2006. (Attachment 4)

The ALP/E program must be reviewed in the context of all alternative livelihoods programs being implemented at the same time in the same area. During the period of the audit, USAID had two alternative livelihoods programs being implemented in Nangarhar Province. USAID's Afghanistan Immediate Needs Program (AINP) was implementing cash-for-work (CFW) programs in Nangarhar during roughly the same period (Jan 2005-Jan 2006) that ALP/E began their program.

According to the final AINP quarterly report, the project aimed to create 2,500,000 days of employment in Nangarhar Province, mainly for farmers who gave up poppy production in the 2004–2005 seasons. The project surpassed this goal, within the original budget, and created 2,900,000 days of employment, including training days. Moreover, the project aimed to reach 50,000 individuals, but the project surpassed this target by employing approximately 134,000 individuals from 70,000 households.

Due to AINP's level of activity in Nangarhar Province, ALP/E cash-for-work infrastructure projects initially focused primarily on Laghman Province prior to February 2006, as cash-for-work was already underway in most districts of Nangarhar under the AINP. It was not deemed necessary to have two major cash-for-work programs operating simultaneously in the same province. As is shown in Attachment 4, ALP/E dramatically increased its CFW activities in Nangarhar and other provinces after AINP closed down in January 2006. The relationship between AINP and ALP/E cash-for-work projects is presented in a graph in Attachment 4.

b) ALP/E work plan was approved before February 2006 (Attachments 5, 6, and 7)

The ALP/E Life of Project (LOP) Work Plan was approved on September 24, 2005 (Attachment 5). Although a formal technical directive was not sent to DAI until February 2006, the acting CTO approved the First Annual Work Plan on December 10, 2005 through a written email (Attachment 6), which allowed DAI to proceed with the implementation of these activities before the formal Technical Directive was issued in February 2006 (Attachment 7).

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